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SUBJECT: EAST JAVA: INAUGURATION OF HESS PROJECT CANCELLED BY
PEACEFUL DEMONSTRATION

This message is sensitive but unclassified. Please protect accordingly.

1. (SBU) On November 15, beginning at approximately 1100, hundreds of demonstrators blocked the entrance to the Hess Onshore Processing Facility in Gresik, north of Surabaya, demanding Hess (the facility's operator) discontinue operations. The protestors, residents of three villages surrounding the facility, complained that Hess was ignoring local needs by failing to establish a community development project and was polluting the surrounding area without regard to the health and safety of residents. The demonstration, which lasted until 1730, blocked access to the facility by the American Citizen President of Amerada Hess, the Minister of Energy and Mineral Resources Purnomo Yusgiantoro, and other officials, causing the planned inauguration of the Ujung Pangkah Field to be cancelled. PO Surabaya was inside the facility during the first three hours of the demonstration.

2. (SBU) Despite substantial local police presence, the demonstrators were able to reach the gates of the facility and hang English-language banners criticizing the Amerada Hess president by name. They chanted anti-American and anti-Hess slogans, sang songs, and demanded a meeting with Hess's president. Hess officials provided demonstrators with water and erected a tent to protect demonstrators from the sun. According to local police officials, the demonstration broke up after Hess representatives announced the establishment of a community development fund of Rp 300 million (USD 32,000) to be utilized in the three surrounding villages.

3. (SBU) Hess employees admitted to PO that Hess had been slow to initiate a community development program in the area. They added that the complaints about pollution stemmed from recent problems with the gas flare at the facility. Gas produced at Ujung Pangkah has a high H2S content, that must be scrubbed before processing. Due to design problems with the flare, and a failure of temporary measures to remove the H2S in recent weeks, a strong smell of sulfur had led to complaints by local residents. Hess employees insisted that there was no health risk, but admitted that the smell was unpleasant. Hess is bringing in new equipment to eliminate the problem.

4. (U) No property was damaged and no personnel injured during the demonstration. The local police chief and his senior officials consulted closely with Hess officials and with Surabaya RSO during the incident and facilitated PO's departure with a police escort.

Project Background

15. (SBU) Amerada Hess, the field operator, has a 75% stake in the Ujung Pangkah PSC, offshore East Java. Kuwait Foreign Petroleum Exploration Co is a minority partner. BPMIGAS, the Indonesian Government agency which regulates the upstream petroleum sector on behalf of the government, is a silent partner. Currently, Hess supplies approximately 17.5 million cubic feet per day (MMCFD) of natural gas to the state electricity firm PLN under a 20-year contract for its Gresik power plant. Hess officials tell us they will reach peak production of 100 MMCFD in the coming months. They also plan to produce 6,000 barrels per day of liquid propane gas from the block by late 2009.

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